



ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Private Bancorporation, Inc. (Holding Company) Private Bank Minnesota (subsidiary Bank)

Person to be contacted regarding this report:	Donald M. Davies
CPP Funds Received:	\$8,222,000
CPP Funds Repaid to Date:	\$0
Date Funded (first funding):	2/27/2009
Date Repaid ¹ :	

RSSD: (For Bank Holding Companies)	2361880
Holding Company Docket Number: (For Thrift Holding Companies)	
FDIC Certificate Number: (For Depository Institutions)	34144
City:	Minneapolis
State:	Minnesota

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

<input checked="" type="checkbox"/>	Increase lending or reduce lending less than otherwise would have occurred.	\$2.1M of the initial \$4.96M CPP capital was transferred to Bank capital in Feb. 2009 to provide leverage for loan growth. Over the next 10 months the Bank funded \$18.8M in new loans. Unfortunately, due to the economy, loan payoffs and paydowns totaled \$16.2M during the same period.
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<input checked="" type="checkbox"/>	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	Included in the \$18.8M in new loan fundings noted above were \$7.3M in HELOCs, \$4.9M in other personal loans and \$6.7M in various business loans.
<input type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	
<input type="checkbox"/>	Make other investments	
<input checked="" type="checkbox"/>	Increase reserves for non-performing assets	In the 1st quarter of 2009, the Bank added \$1.27M of loan loss provision to its loan reserves. By the end of the year the provision totaled \$2.2M.

<input checked="" type="checkbox"/>	Reduce borrowings	<p>\$2.5M of the initial CPP capital (\$4.96M) was used to reduce the holding company bank stock loan. Without the CPP capital, the loan could possibly have been called due to the losses incurred by the Bank. At renewal in Sep. 2009, the lender still reduced the line from \$5M to \$3M.</p>
<input checked="" type="checkbox"/>	Increase charge-offs	<p>The Bank incurred loan charge-offs in 2009 of \$3.1M.</p>
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input type="checkbox"/>	Held as non-leveraged increase to total capital	

What actions were you able to avoid because of the capital infusion of CPP funds?

1. The Bank was able to avoid shrinking outstanding loans at the beginning of 2009 in order to maintain its "well capitalized" capital ratios. This would have meant not being able to meet our clients' basic lending needs, but more importantly, the perceived instability would have created a significant liquidity event for the Bank at a time of consumer concerns over the safety of their deposits. It also avoided the need to consider staff layoffs and instead "only" institute a freeze on staff salary and wages.
2. The Holding Company avoided the very difficult task of trying to raise capital in a nonexistent equity investment market in order to pay down, or maybe even payoff, its bank stock loan. The availability of Trust Preferred Securities for smaller banks had disappeared in 2007 and by the end of 2008 private equity investments had also dried up.

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

1. After the first CPP capital infusion in February 2009 the Bank was able to restart its normal lending activities which had basically been put on hold since the third quarter of 2008. It provided the leverage to grow while maintaining a capital cushion for unforeseen future loan losses.
2. During the 3rd quarter of 2009, an extensive review of the Bank's current and future capital needs was performed as part of an ongoing strategic planning process. Three things became very apparent in this review: (1) future profitability depended on taking advantage of "good" loan growth opportunities which would require additional capital to leverage; (2) regulators were informally "raising the bar" on banks' well-capitalized ratios; and (3) private equity capital investments for small non-public financial organizations was still not available. Therefore, the decision was made to apply for the second round of CPP capital funding. This series of preferred stock in the amount of \$3.262M was funded on December 29, 2009. This has provided the Holding Company and the Bank with the strong capital base to retain and attract core deposits and take advantage of loan growth opportunities in 2010 in order to return the organization to profitability.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

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According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.